



Staff Contact: Brad Watson (x69719)

May 24, 2007

Appropriations Policy Brief

H.R. 2206 — U.S. Troop Readiness, Veterans' Care, Katrina Recovery, and Iraq Accountability Appropriations Act, 2007 *Amendment 1*

BY THE NUMBERS:

In millions

| | Request | Senate | House | Conference | H.R. 2206 |
|------------------------------------|----------------|----------------|----------------|----------------|----------------|
| Defense (including Foreign Aid) | 99,620 | 103,981 | 111,303 | 109,295 | 12,827 |
| Agriculture Assistance | 0 | 4,192 | 3,726 | 3,500 | 3,000 |
| Misc. (including Hurricane Relief) | 3,400 | 14,196 | 8,838 | 10,995 | 5,990 |
| SCHIP Shortfall Funding | 0 | 448 | 463 | 393 | 396 |
| Minimum Wage/Tax Relief | NA | NA | NA | NA | NA |
| <i>Amendment 2 Funding</i> | | | | | 97,844 |
| Total | 103,020 | 122,817 | 124,330 | 124,183 | 120,009 |

Budget Compliance: H.R. 2206 designates the entire \$120 billion in funding as an emergency to avoid the constraints of the FY 2008 budget resolution (the recently passed budget that supersedes the FY 2007 budget resolution, under which prior supplementals were governed by).

PAYGO Compliance: According to the Budget Committee (Minority), H.R. 2206 includes at least \$3 billion over eleven years in new entitlement spending that should be paid for under the Majority's PAYGO rule. Since the legislation does not offset this funding, a PAYGO point of order should be in order against the bill. However, the rule waives all points of order.

Non-Combat Defense, International Affairs, and Homeland Security Provisions (Title III):

In millions

| Department of Defense | Request | Senate | House | Conference | H.R. 2206 |
|------------------------------------|---------|--------|--------|------------|-----------|
| Military Personnel | 12,145 | 13,435 | 13,566 | 13,508 | 1,148 |
| Operations & Maintenance | 50,316 | 48,784 | 52,499 | 50,430 | 1,639 |
| <i>Strategic Reserve Readiness</i> | 0 | 0 | 2,500 | 2,000 | 1,615 |

| <i>Fund</i> | | | | | |
|---------------------------------|--------|--------|--------|--------|-------|
| Procurement | 24,900 | 24,508 | 24,814 | 25,592 | 3,008 |
| Defense Health Program | 1,073 | 2,467 | 2,790 | 3,252 | 1,879 |
| Military Construction | 1,854 | 4,914 | 4,916 | 4,806 | 3,136 |
| <i>DoD Base Closure Account</i> | 0 | 3,136 | 3,136 | 3,136 | 3,136 |

| Department of Agriculture | Request | Senate | House | Conference | H.R. 2206 |
|--|----------------|---------------|--------------|-------------------|------------------|
| P.L. 480, Title II Grants | 350 | 475 | 450 | 460 | 100 |
| Bill Emerson Humanitarian Trust | 0 | 82 | 0 | 40 | 10 |
| Department of Homeland Security | | | | | |
| Departmental Management & Operations | 0 | 0 | 35 | 15 | 8 |
| Customs and Border Protection | 0 | 140 | 100 | 115 | 75 |
| Air & Marine Interdiction | 0 | 75 | 150 | 120 | 75 |
| US Immigration and Customs Enforcement, Salaries and Expenses | 0 | 20 | 0 | 10 | 6 |
| Transportation Security Administration | 0 | 660 | 1,250 | 970 | 390 |
| Federal Air Marshals | 0 | 15 | 0 | 8 | 5 |
| Infrastructure Protection & Information Security | 0 | 18 | 25 | 37 | 24 |
| Office of Health Affairs | 0 | 18 | 0 | 15 | 8 |
| FEMA, Salaries & Expenses | 0 | 20 | 25 | 25 | 14 |
| FEMA, State and Local Programs | 0 | 850 | 415 | 553 | 247 |
| FEMA, Emergency Management Performance | 0 | 0 | 100 | 100 | 50 |
| US Citizenship and Immigration Services | 0 | 30 | 0 | 10 | 8 |
| Science and Technology, Research, Development, Acquisition, and Operations | 0 | 15 | 0 | 10 | 5 |
| Domestic Nuclear Detection Office, Research, Development and Operations | 0 | 39 | 0 | 39 | 35 |
| Domestic Nuclear Detection Office, Systems Acquisition | 0 | 0 | 400 | 224 | 100 |
| Department of Energy | | | | | |
| Defense Nuclear Nonproliferation | 63 | 63 | 150 | 150 | 72 |
| Department of Justice | | | | | |
| FBI, Salaries & Expenses | 118 | 348 | 118 | 268 | 140 |
| Drug Enforcement Administration | 8 | 25 | 8 | 12 | 4 |

| | | | | | |
|--|-------|-------|-------|-------|-----|
| Legislative Branch | | | | | |
| House of Representatives, Salaries & Expenses | 0 | 0 | 6 | 6 | 6 |
| Department of State | | | | | |
| Diplomatic and Consular Affairs | 913 | 816 | 967 | 871 | 34 |
| Inspector General | 35 | 37 | 47 | 37 | 2 |
| International Organizations Contributions to International Organizations | 0 | 59 | 0 | 50 | 50 |
| International Disaster and Famine Assistance | 0 | 187 | 135 | 165 | 60 |
| US Agency for International Development, Operating Expenses | 0 | 6 | 11 | 9 | 3 |
| US Agency for International Development Office of Inspector General | 0 | 4 | 4 | 4 | 4 |
| Economic Support Fund | 3,025 | 2,602 | 2,953 | 2,649 | 122 |
| Department of State Democracy Fund | 0 | 465 | 0 | 260 | 5 |
| International Narcotics Control | 260 | 210 | 335 | 257 | 42 |
| Migration and Refugee Assistance | 72 | 143 | 112 | 131 | 59 |
| U.S. Emergency Refugee & Migration Assistance | 30 | 55 | 35 | 55 | 25 |
| Nonproliferation, Antiterrorism, & Demining | 28 | 28 | 88 | 58 | 30 |
| Funds Appropriated to the President | | | | | |
| Foreign Military Financing Program | 220 | 220 | 260 | 265 | 45 |
| Peacekeeping Operations | 278 | 323 | 225 | 230 | 40 |

Items of Note:

Strategic Reserve Readiness Fund: Provides \$1.6 billion to establish a new fund to train and equip non-deployed U.S. military forces to improve their readiness.

Base Realignment and Closure Funding: Provides \$3.1 billion for the Base Realignment and Closure Account to fulfill the Administration's FY 2007 request. The omnibus appropriations bill (H.J.Res. 20) provided \$2.5 billion for such needs. However, some conservatives may be concerned that all of this funding should have been provided in the

omnibus bill, where it would have been subject to budget constraints. Instead, the Appropriations Committee delayed this funding to the supplemental, freeing up dollars within the budget for lesser priorities.

RSC Staff Contact for This Title: Brad Watson, brad.watson@mail.house.gov; (202) 226-9719

Hurricane Relief (Title IV):

In millions

| | Request | Senate | House | Conference | H.R. 2206 |
|--|----------------|---------------|--------------|-------------------|------------------|
| Department of Commerce | | | | | |
| NOAA, Operations, Research, & Facilities | 0 | 166 | 120 | 110 | 110 |
| NASA, Exploration Capabilities | 0 | 0 | 35 | 35 | 20 |
| Department of Justice | | | | | |
| Office of Justice Programs | 0 | 170 | 0 | 50 | 50 |
| Department of Defense | | | | | |
| Army Corps of Engineers | 0 | 1,558 | 1,337 | 1,433 | 1,433 |
| Small Business Administration | | | | | |
| Disaster Loan Program Account | 0 | 25 | 25 | 25 | 181 |
| Department of Homeland Security | | | | | |
| FEMA, Disaster Relief Fund | 3,400 | 4,310 | 4,310 | 4,610 | 710 |
| Department of the Interior | | | | | |
| Historic Preservation Fund | 0 | 15 | 0 | 10 | 10 |
| Department of Education | | | | | |
| Hurricane Education Recovery | 0 | 30 | 30 | 30 | 30 |
| Higher Education | 0 | 30 | 30 | 30 | 30 |
| Department of Transportation | | | | | |
| Federal Aid Highways, Emergency Relief Program | 0 | 389 | 0 | 683 | 871 |
| Federal Transit Administration, Formula Grants | 0 | 75 | 0 | 35 | 35 |
| Department of HUD | | | | | |
| Inspector General | 0 | 5 | 10 | 7 | 7 |
| Department of Veterans Affairs | | | | | |
| Minor Projects | 0 | 356 | 260 | 326 | 14 |

Items of Note:

NASA: Provides \$20 million to NASA, under the “exploration capabilities” account, for “expenses related to the consequences of Hurricane Katrina.” The bill also provides that of the amounts previous appropriated to NASA, \$48 million may be used to reimburse hurricane-related costs incurred by NASA in FY 2005.

Office of Inspector General: Provides \$7 million for the Office of Inspector General for “necessary expenses related to the consequences of Hurricane Katrina and other hurricanes of the 2005 season.”

Corps of Engineers: Provides \$1.4 billion to Corps of Engineers for continued repairs on the levee system in New Orleans.

Small Business Administration: Provides \$181 million to the SBA for additional funding to carry out the Disaster Loan Program.

FEMA: Provides \$710 million for disaster relief at the Federal Emergency Management Agency (FEMA), of which \$4 million is to be transferred to the Office of the Inspector General. The bill extends from 12 months to 24, the time frame in which FEMA can provide funds to pay for utility costs resulting from the provision of temporary housing unties to Hurricane Katrina evacuees. In addition, the supplemental would eliminate the state and local matching requirements for certain FEMA assistance (in connection with Hurricanes Katrina, Rita, Wilma, and Dennis) in the states of Alabama, Louisiana, Mississippi, Texas, and Florida, and provides that the federal portion of these costs will be 100%.

K-12 Education Funding for Hurricane States: Provides \$30 million to Louisiana, Mississippi, and Alabama for recruiting and compensating teachers and principals in schools affected by Hurricanes Katrina and Rita, for the implementation of “high-quality formative assessments,” and the “establishment of partnerships with nonprofit entities with a demonstrated track record in recruiting and retaining outstanding teachers and other school leaders.”

Higher Education Funding for Hurricane States: Provides \$30 million in assistance to institutions of higher education located in a disaster area related to the 2005 Gulf of Mexico Hurricanes.

Federal Highway Administration Rescission: Rescinds \$871 million from unused highway spending.

RSC Staff Contact for This Title: Brad Watson, brad.watson@mail.house.gov, (202) 226-0718

Other Emergency Appropriations (Title V):

| <i>In millions</i> | | | | | |
|--------------------|----------------|---------------|--------------|-------------------|------------------|
| | Request | Senate | House | Conference | H.R. 2206 |
| NOAA, Commerce | 0 | 60 | 60 | 60 | 60 |

| | | | | | |
|--|---|-----|-----|-----|-----|
| Department of Agriculture | 0 | 0 | 0 | 0 | 40 |
| Corps of Engineers | 0 | 3 | 0 | 3 | 22 |
| Flood Control and Coastal Emergencies | 0 | 150 | 0 | 150 | 153 |
| Water and Related Resources, Interior | 0 | 18 | 0 | 18 | 18 |
| Bureau of Land Management, Interior | 0 | 100 | 100 | 100 | 95 |
| Fish & Wildlife Services, Interior | 0 | 7 | 7 | 7 | 7 |
| National Park Service, Interior | 0 | 1 | 1 | 1 | 1 |
| U.S. Geological Survey, Interior | 0 | 5 | 5 | 5 | 5 |
| Forest Service | 0 | 12 | 0 | 12 | 12 |
| Wildlife Fire Management | 0 | 400 | 400 | 400 | 370 |
| CDC | 0 | 17 | 0 | 63 | 63 |
| Secure Rural Schools, USDA | 0 | | 400 | 425 | 425 |
| LIHEAP | 0 | 640 | 400 | 400 | 0 |
| Public Health & Social Services Fund (Avian Flu) | 0 | 820 | 970 | 625 | 0 |
| Legislative Branch | 0 | 25 | 50 | 50 | 60 |
| VA, Medical Services | 0 | 454 | 415 | 467 | 467 |
| VA, Medical Administration | 0 | 250 | 256 | 250 | 250 |
| VA, Medical Facilities | 0 | 595 | 595 | 595 | 595 |
| VA, Medical and Prosthetic Research | 0 | 30 | 35 | 33 | 33 |
| VA, Departmental Administration | 0 | 46 | 62 | 83 | 83 |
| VA, Information Technology Systems | 0 | 36 | 35 | 35 | 35 |
| VA, Construction Minor Projects | 0 | 356 | 260 | 326 | 326 |

Items of Note:

National Oceanic and Atmospheric Administration (NOAA): Provides \$60.4 million for the National Marine Fisheries Service under NOAA to be distributed among fishing communities, Indian tribes, individuals, small businesses, including fishermen, fish processors, and related businesses for assistance to “mitigate the economic and other social effects caused by the commercial fishery failure, as determined by the Secretary on August 10, 2006.”

Wildland Fire Management: Provides a combined \$465 million for the Bureau of Land Management and the U.S. Forest Service for “urgent wildland fire suppression activities.”

Secure Rural Schools Act (Forest County Payments): Provides \$425 million to be used for one-time payments to be allocated to states under the Secure Rural Schools and Community Self-Determination Act of 2000. This program provides a funding stream (known as forest county payments) to counties with large amounts of Bureau of Land Management land, in order to compensate for the loss of receipt-sharing payments on this land caused by decreased revenue from timber sales due to environmental protections for endangered species. The authorization for these forest county payments expired at the end of FY 2006, and counties received their last payment under the Act in December 2006.

Capitol Power Plant: Provides \$50 million to the Capitol Power Plant for asbestos abatement and safety improvements.

RSC Staff Contact for This Title: Brad Watson, brad.watson@mail.house.gov, (202) 226-0719

Other Matters (Title IV):

In millions

| | Request | Senate | House | Conference | H.R. 2206 |
|--|----------------|---------------|--------------|-------------------|------------------|
| Farm Service Agency | 0 | 75 | 48 | 38 | 38 |
| Office of Federal Housing Enterprise Oversight | 0 | 5 | 8 | 6 | 6 |

Items of Note:

FDA Office of Women’s Health: Provides \$4 million for the Office of Women’s Health at the Food and Drug Administration.

Rescinding Homeland Security Funding: Rescinds \$31 million in funding from the FY 2006 Homeland Security bill.

Payment to Widow of Rep. Norwood: Provides \$165,200 to Gloria W. Norwood, the widow of former Rep. Charlie Norwood (R-GA) who passed away last month. In the Emergency Supplemental Appropriations Act of 2005 (H.R. 1268), Congress provided \$162,100 to Doris Matsui, the widow of former Rep. Robert Matsui.

NTSB Lease: Amends a provision in the continuing resolution, which provided \$78.9 million for the National Transportation Safety Board, Salaries and Expenses, to “include amounts necessary to make lease payments due in FY 2007 on an obligation incurred in 2001 under a capital lease.”

RSC Staff Contact for This Title: Brad Watson, brad.watson@mail.house.gov, (202) 226-0718

SCHIP Funding (Title VII):

SCHIP: Provides “such funding, but not to exceed.” \$650 million to the Secretary of HHS to provide assistance to the SCHIP “shortfall states” in the form of an amount “as the Secretary determines will eliminate the estimated shortfall.” The Majority has indicated they intend the funding to be a one-time appropriation and not direct spending included in a supplemental to contravene the Majority’s own PAYGO rules. However, the use of an emergency designation for this type of spending may be unprecedented—RSC staff has found no instance where Medicare, Medicaid, and SCHIP have been designated as an emergency. (CBO previously scored this provision as costing \$393 million because of the way the program interacts with Medicaid).

The State Children’s Health Insurance Program (SCHIP) is a block grant provided to states for health care coverage for low-income children in families with income above Medicaid eligibility levels. States receive a fixed federal contribution, which is intended to last for three years, and any unused funds at the end of that time period are redistributed to states that have used the entire grant. Some states experience a “shortfall” in funding, in light of decisions to insure adults, pregnant mothers, and children from families with significantly more income than the poverty level (350% in one state). According to a 2006 CRS report, the following 14 states will likely have a shortfall in FY 2007: Alaska, Georgia, Illinois, Iowa, Maine, Maryland, Massachusetts, Minnesota, Mississippi, Missouri, Nebraska, New Jersey, Rhode Island, and Wisconsin.

CMS Regulations: Prohibits the Secretary of Health and Human Services from implementing a proposed regulation related to SCHIP and Medicaid that would limit Medicaid payments for graduate medical education to hospitals.

Tamper-Resistant Prescription Pads: Prohibits Medicaid payments for amounts expended for covered outpatient drugs, unless the prescription is in written form on a tamper-resistant pad. Also, extends the Pharmacy Plus waiver, that allows states to seek waivers of federal Medicaid law and regulations under certain circumstances. According to the Joint Explanatory Statement, these provisions are intended to “offset the cost of blocking the Medicaid rules” outlined above.

RSC Staff Contact for This Title: Joelle Cannon, joelle.cannon@mail.house.gov, (202) 226-0718

Minimum Wage/Tax Provisions (Title VIII):

Minimum Wage Increase: Mandates that employers give some of their employees a 41% raise over two years. Specifically, the federal minimum wage would increase from \$5.15-per-hour to \$7.25-per-hour over two years. The minimum wage would first increase to

\$5.85 sixty days after this bill's enactment, then to \$6.55 one year after the first increase, then to \$7.25 one year after the second increase. **Yields \$16.5 billion in private-sector costs over five years.**

American Samoa and Northern Mariana Islands: Applies a federal minimum wage to the Commonwealth of the Northern Mariana Islands AND American Samoa and increases it steadily until it matches the new \$7.25 mandate for the 50 states. The remaining U.S. territories would remain fully or partially exempt from the minimum wage, as under current law. It is unclear why the Mariana Islands and American Samoa would be given harsher treatment than the other U.S. territories.

Assessment Report: Requires the Secretary of Labor, beginning 26 months after enactment of this legislation, to study the impact of wage increases required by this legislation and project the future impact on American Samoa and the Northern Mariana Islands.

NOTE: The minimum wage provisions are essentially the same as those in the conference report for the original Supplemental, except that this new bill applies the federal minimum wage to American Samoa and contains a reporting requirement.

To see the RSC Legislative Bulletin on H.R. 2, which includes more background on the minimum wage and conservative opposition to it, visit this webpage:

http://www.house.gov/hensarling/rsc/doc/LB_011007_minwage100hour.doc.

Work Opportunity Tax Credit (WOTC): Extends the expiration date for the WOTC (currently the end of 2007) to August 31, 2011, and expands its application. The WOTC allows employers to claim the maximum \$2,400 credit when they hire individuals from nine “target” groups—such as families receiving public assistance, high-risk youths, ex-felons, qualified veterans, and food stamp recipients age 18-39.

Section 179 Expensing: Extends the sunset date for one year (from the end of 2009 to the end of 2010) for the expanded Section 179 expensing provisions in current law. Presently, small businesses may expense—i.e., deduct in the first year—up to \$112,000 of certain asset investments, phasing out dollar-for-dollar to the extent the business' annual investments exceed \$450,000. This provision would also immediately increase the \$112,000 and \$450,000 thresholds to \$125,000 and \$500,000, and index them for inflation through and including 2010. After 2010, the expensing limit will decline to \$25,000 and the phase-out threshold will decline to \$200,000.

Restaurant Tip Credit: Extends the restaurant tip credit at the current level of \$5.15 per hour. For tipped employees, the Fair Labor Standards Act (FLSA) provides that the \$5.15-per-hour minimum wage may be reduced to \$2.13, if the combination of tips and cash income equals the federal minimum wage. Employers still have to pay taxes (under the Federal Insurance Contributions Act--FICA) on tip income of their employees. A business tax credit is provided equal to an employer's FICA taxes paid on tips in excess of those treated as wages for purposes of meeting the minimum wage requirements of FLSA. If this provision were not included in the bill, restaurants would not be able to claim the tip credit

on payroll taxes paid for tipped employees on income between \$5.15 and a new higher hourly minimum wage.

Credits against the Alternative Minimum Tax (AMT): Allows the Work Opportunity Tax Credit and the restaurant tip credit to offset tax liability under the AMT beginning in tax-year 2007. Generally, business tax credits cannot be used to offset any liability under the AMT.

Self-Employment Taxes of Married Couples: Allows a qualified joint venture, whose only members are a husband and wife filing a joint return, not to be treated as a partnership for tax purposes (as they currently are required to do).

Section 179 Expensing in the GO Zone: Extends by one year (through the end of 2008) the increased section 179 small business expensing for qualified property in the Gulf Opportunity (GO) Zone.

Housing Credits in GO Zone: Extends the increased cap on special GO Zone low-income housing credits, which had been implemented for the hurricane-affected states for 2006 through 2008, for two years (through the end of 2010). Also extends the GO Zone's designation as a "difficult to develop area" through the end of 2010—which has implications for increasing the amount of credits available for investors in projects in the area.

CDBG Housing Projects: Allows low-income (Community Development Block Grant—CDBG) housing projects to receive additional categories of federally-subsidized loans without facing a reduction in tax credits. Under current law, low-income housing projects that receive certain federally-subsidized loans must either accept a lower credit rate or make an offsetting reduction in the property's basis.

Mortgage Revenue Bonds: Allows the proceeds of Mortgage Revenue Bonds to be used to refinance an existing mortgage, if repairs or reconstruction costs total at least 25% of the owner's adjusted basis in the property. Generally, current law does not allow the proceeds of Mortgage Revenue Bonds to be used to refinance existing mortgages.

State and Local Implementation: Directs the Comptroller General to report to Congress on the practices employed by state and local governments in allocating and using tax incentives provided by this bill and the Gulf Opportunity Zone Act of 2005.

S Corporations: Provides nearly \$900 million over eleven years of tax-relief provisions for S Corporations (a certain class of small corporations), such as removing the capital gains of S Corporations from the definition of passive investment income for tax purposes and eliminating all earnings and profits attributable to years before 1983 for S Corporations.

Capital Gains Tax Rate for Certain Minors and Adults: Beginning in tax-year 2007, taxpayers would be denied the lowest maximum capital gains and dividends tax rate—5% in 2007, 0% in 2008, 0% in 2009, 0% in 2010, and 8% or 10% thereafter—if they are under

age 19 (age 24, in the case of a student) and if their earned income is less than half of their financial support (i.e., if they are more than 50% dependent on their family's financial support).

Extends the suspension of interest payments due to the IRS: Beginning six months after this legislation's enactment, taxpayers who underpay their taxes and are subject to interest penalties on the unpaid amounts would not have their interest payments suspended until 36 months after the IRS has failed to contact the taxpayers about the underpayments—as opposed to the current-law 18 months.

Collection Due Process Procedures: Changes the “collection due process procedures” with regards to employment tax liabilities. Currently, the IRS is allowed to seize a taxpayer's physical property given a federal tax lien for underpayments of employment taxes. Prior to seizing the property, however, the IRS has to notify the taxpayer that they have a right to a collection due process (CDP) hearing. This bill would allow the IRS to seize property without first giving the taxpayer a CDP hearing—but only for taxpayers who have already requested a CDP hearing within the prior two years. Taxpayers who have NOT requested a CDP hearing within the prior two years would NOT be subject to the new requirements allowing pre-hearing seizures of property. The IRS would still have to send warning notices, and the hearing would still have to be offered—but not necessarily before the property seizure.

IRS User Fees: Makes IRS user fees—such as fees for opinion letters or determination letters—permanent.

Bad Checks and Money Orders: Increases the fee on sending checks and money orders to the IRS that are “not duly paid.” Currently, the fee for providing a bad check or money order to the IRS is 2% of the amount of such check; except that if the amount of such check is less than \$750, the penalty is \$15 or the amount of such check, whichever is the lesser. This provision would raise the threshold for the lesser fee from \$750 to \$1,250 and would raise the \$15 figure to \$25.

Expanded Penalties for Return Preparers: Expands and increases the penalties for tax return preparers who understate a taxpayer's liability (because of unreasonable positions that could not be sustained on their merits, reckless or intentional disregard for the law, or willful intent to understate tax liability) on all types of tax returns, such as those for nonprofit entities, estate taxes, and employment taxes—not just income taxes, as under current law.

Erroneous Refund Claim Penalty: Creates a new civil penalty for making an unreasonable, excessive claim for an income tax refund (excluding the Earned Income Tax Credit). The penalty would be 20% of the excessive amount—i.e., the amount above the proper refund.

Corporate Estimated Tax Shifts: Increases the corporate estimated tax payments due in the summer of FY2012 for corporations with assets of at least \$1 billion. This provision does not yield a net tax increase; it merely requires a higher quarterly payment of corporate

estimated taxes in the summer of 2012, and a correspondingly lowered estimated payment thereafter. Under current law, the estimated payments due in the summer of FY2012 have to be 106.25% of what would otherwise be paid (100% = one quarter of the year's estimated tax payment due). This provision of the Supplemental would increase that amount from 106.25% to 114.25%, requiring businesses to pay even more of their taxes early.

NOTE: These tax provisions are identical to those in the conference report for the original Supplemental.

Additional Background: Most of the above provisions have already passed the House in this exact, or similar, format. For more information on these provisions, as they were included in other legislation, see:

- The RSC Legislative Bulletin on H.R. 976:
http://www.house.gov/hensarling/rsc/doc/LB_021607_smallbiztax.doc
- The RSC Legislative Bulletin on H.R. 1562:
http://www.house.gov/hensarling/rsc/doc/LB_032707_KatrinaTaxAmended.doc
- The RSC Legislative Bulletin on H.R. 1591:
http://www.house.gov/hensarling/rsc/doc/LB_032207_IraqSuppUpdated.doc
- The RSC Legislative Bulletin on H.R. 1677:
http://www.house.gov/hensarling/rsc/doc/LB_041707_suspensions.doc.

Possible Conservative Concerns: Some conservatives might be concerned that the federal minimum wage itself is anti-capitalist, since it prevents an employer and a potential employee from engaging in free-market labor negotiations. Furthermore, quickly-increased labor costs unrelated to business conditions will encourage or force employers to fire employees, reduce working hours for existing employees, and/or postpone plans to hire additional employees. Conservatives may also be concerned with the pace of this increase, **which would mandate that employers give certain employees a 41% raise over two-plus years, yielding \$18 billion (according to CBO) in intergovernmental and private-sector costs over five years—which is not nearly offset by the tax relief paired with the minimum wage increase.**

Some conservatives may be concerned that this title contains some *permanent* tax and revenue increases on some taxpayers to “pay for” certain *temporary* tax cuts for other taxpayers. **Additionally, some conservatives may be concerned that the small business tax-cut provisions—\$4.84 billion over eleven years—do not even come close to offsetting the costs of the minimum wage increase—\$16.5 billion for small businesses over five years.** Furthermore, the bill chips away at the capital gains and dividends tax cut (by preventing certain students under age 24 and certain non-students under age 19 from getting the lowest rate available under current law), while effectively increasing interest penalties for certain taxpayers, and accelerating certain quarterly tax payments for corporations.

Revenue Estimate: According to the Joint Committee on Taxation, the minimum wage and tax portion of the conference report of the original Supplemental includes \$4.844 billion in tax relief provisions over eleven years and \$4.899 billion in tax and revenue increases over eleven years, yielding a net tax and revenue increase of \$55 million over eleven years. Private-sector and intergovernmental costs of raising the minimum wage are estimated to be \$18 billion over five years. There is no indication that the revenue estimate is different for the tax portion of this new Supplemental.

RSC Staff Contact for This Title: Paul S. Teller, paul.teller@mail.house.gov, (202) 226-9718

Agriculture (Title IX):

In millions

| | Request | Senate | House | Conference | H.R. 2206 |
|--|----------------|---------------|--------------|-------------------|------------------|
| Emergency Conservation Program | 0 | 35 | 20 | 20 | 16 |
| Dairy Assistance | 0 | 95 | | 20 | 16 |
| Emergency Grants to Assist Low-Income Migrant and Seasonal Workers | 0 | 0 | 0 | 21 | 16 |
| Farm Service Agency, Administrative Expenses | 0 | 0 | 0 | 30 | 22 |

Note: The above chart includes only discretionary spending and not new agriculture entitlement spending.

Items of Note:

Crop Disaster Assistance: Provides agriculture assistance to producers experiencing crop losses in 2005, 2006, or 2007 due to bad weather. Farmers experiencing losses in more than one year would be required to choose only one year for which they wish to receive loss compensation. A large portion would be provided in the form of direct payments to agriculture producers who experienced more than 35% crop loss in expected production. The payment would be 50% of the market price. Producers would not be eligible for these payments if they had failed to purchase available crop insurance. The bill ensures that these disaster payments would not exceed 95% of a crop's worth in the absence of hurricane destruction.

Livestock Assistance: Provides compensation for livestock losses in 2005, 2006, and 2007, due to a disaster, including wildfire in the state of Texas and other states and blizzards in the states of Colorado, Kansas, Nebraska, New Mexico, and Oklahoma. Cattlemen experiencing losses in more than one year would be required to choose only one year for which they wish to receive loss compensation.

Livestock Indemnity Payments: Provides livestock indemnity payments to producers on farms experiencing livestock losses due to hurricanes, floods, anthrax, and wildfires in the state of Texas and other states, and blizzards in the states of Colorado, Kansas, Nebraska, New Mexico, and Oklahoma. Cattlemen experiencing losses in more than one year would be required to choose only one year for which they wish to receive loss compensation. Payments would be not less than 30% of the market value of the livestock on the day before their death.

Emergency Conservation Program: Authorizes \$20 million to the Secretary of Agriculture for assistance through the Emergency Conservation Program for cleanup and restoration of farm and agricultural production lands.

Milk Income Loss Contract (MILC) Program: Extends for one month authorization of MILC Program extending it through September 2007.

Dairy Assistance: Provides \$20 million to make payments to dairy producers for dairy production losses in disaster counties.

Low Income Migrant Workers: Provides \$21 million for grants to public agencies and private organizations (501(c)(3)s) that have experience in providing emergency services to low-income migrant and seasonal farm workers after there has been a local, state or national emergency that has caused these workers to lose income.

Farm Service Agency: Provides \$30 million for administrative expenses (for salaries and expenses) at the Farm Service Agency.

RSC Staff Contact for This Title: Brad Watson, brad.watson@mail.house.gov, (202) 226-0719
